

The United States Balance of Payments in 1954

THE principal recent influence upon the exchange of goods and services between the United States and foreign countries has been the continued rise in industrial production abroad, particularly in Western Europe. High domestic demand which in some cases approached the available capacity in these countries stimulated their imports while preventing exports from rising proportionally. The resulting changes in the international accounts led to reductions in the rate of accumulation of gold and foreign exchange reserves, and in the early months of 1955, even to some declines in reserve holdings. The credit restrictions adopted by the United Kingdom at the end of February were a result of these developments and were intended to correct them.

In contrast, the domestic business activity during the last quarter of 1954 was in the early stage of the current rise and bottlenecks to the expansion of production had not developed. These differences in the relative supply situations here and abroad contributed to the fact that the United States balance of payments up to the end of the year was little affected by the change in domestic business.

Exports rise sharply—Imports lag

Although domestic demands in the United States have risen substantially, it has been possible for our exports to increase also. More than half of the \$600 million rise in nonmilitary exports in the fourth quarter may be attributed to other than seasonal factors. A substantial part of the export rise consisted of foodstuffs and agricultural raw materials, but there was also a considerable increase in industrial goods including steel, fuels and chemicals for which the export demand had to compete with the rising domestic demand.

The \$120 million rise in merchandise import values from the third to the fourth quarter was due mainly to larger imports of coffee, fuel oil, newsprint, whiskey, and tobacco. To a large extent this rise was seasonal. The value of coffee imports was affected by a decline in average unit values from 76 cents per pound in the third quarter to 64 cents in the fourth.

Imports of the major raw materials such as wool and most of the metals declined. Rubber imports also fell in volume, but because of higher prices rose slightly in value.

For many of these raw materials such as rubber and copper the rise in foreign demand has led to price rises which encouraged the expansion of domestic production and, in the case of wool, the greater use of synthetics and domestic supplies. In addition, inventories of some materials were drawn down thus postponing the effects of rising domestic demands upon imports.

The United States export balance on goods and services, excluding military end-items exported under grant-aid programs, rose to more than \$900 million, the highest amount for the fourth quarter since 1951. At that earlier time

exports were stimulated by the high foreign incomes following the outbreak of hostilities in Korea, while United States imports were held down by the liquidation of inventories accumulated earlier in that year. The high export balance during the fourth quarter of 1954 was made possible mainly by increased grants and private capital outflows.

More grants of surplus farm products

The rise in nonmilitary grants in 1954 consisted largely of emergency food relief grants, donations of agricultural surplus goods distributed abroad through private relief organizations. There was also a large cash payment to Vietnam for relief and resettlement of refugees.

Payments to France for military expenses in Southeast Asia dropped from \$136 million in the third quarter to \$89 million in the fourth but dollar payments to assist the United Kingdom in the production of military aircraft rose during the same period from \$6 million to \$26 million.

Commercial credits expand

The outflow of private capital—according to preliminary estimates—expanded substantially in the final quarter of 1954, largely because of higher medium term bank loans to Latin America. Portfolio investments were also increased by a \$25 million issue of Australian bonds of which about three-fourths was purchased by United States investors. Proceeds of a Belgian bond issue were transferred after the close of the year and are, therefore, not included in the fourth quarter figures. These issues were the first foreign bonds, except for those sold by Canada and the International Bank, to be publicly offered in the United States since 1947.

The revival in the market for such securities indicates the rising confidence in the economic and monetary stability of the borrowing countries and the general area with which they are economically connected. The bank loans to Latin America, however, were very largely secured by gold and United States Government securities and reflect rather a weakness in the balance of payments of the debtors due to high import demands and marketing difficulties for their main export commodities.

Equally divergent factors accounted also for the continued large outflow of short-term capital. In part, the capital flow went to such relatively strong countries, as Germany, Venezuela, Mexico and the United Kingdom, and in part it includes increased claims against countries which were affected by the decline in coffee prices.

Foreign debts offset rise in dollar assets

Some of the rise in United States assets abroad can be attributed to the increased usefulness of foreign currencies for international payments and to higher yields on short-term funds held abroad. A large part of the credits, particularly to some of the Latin American countries, should

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be considered a substitution for drawings by foreign countries on their reserves, however. Although foreign gold and dollar assets rose during the fourth quarter of 1954 through transactions with the United States by nearly \$400 million, about the same amount as during the last quarter of 1953, the increase after allowing for the emergency credits was considerably less.

The Year 1954

For the year 1954 as a whole, foreign receipts from United States imports of goods and services, Government grants (excluding those of military and items) and capital, and private United States capital and donations amounted to about \$19.4 billion. Of this amount \$17.6 billion was spent on goods and services here and \$1.7 billion was added to foreign reserves or other dollar assets.

Government expenditures sustain exports

Of the total foreign receipts, about \$5.3 billion represented foreign expenditures by the United States Government (including purchases for the strategic stockpile), and about \$700 million consisted of short and medium term commercial credits. These data indicate the extent to which the high value of exports which was reached during the year, depended upon the dollar outflow from these sources.

Net payments to Europe decline

Transactions with Western Europe through the exchange of goods and services, Government grants and loans, and private United States capital movements and remittances resulted in an excess of payments by the United States over receipts of about \$1.2 billion in 1954 as compared with about \$1.65 billion in 1953. Transactions with the United Kingdom and the other sterling area countries in Europe accounted for

Table 1.—Balance of Payments of the United States.

(Millions of dollars)

Line	Item	All areas						Western Europe						Western European dependencies					
		1953	1954					1953	1954					1953	1954				
			Year*	I	II	III*	IV*		Year*	I	II	III*	IV*		Year*	I	II	III*	IV*
1	Exports of goods and services, total.....	31,365	20,751	4,767	5,691	4,373	5,429	7,748	7,240	1,537	1,348	1,812	1,989	538	704	143	158	145	158
2	Military transfers under grants, ¹ total.....	4,281	3,137	836	956	785	697	3,469	2,318	668	681	532	455	—	—	—	—	—	—
3	Supplies.....	4,096	2,922	734	840	647	531	3,250	2,141	625	637	472	367	—	—	—	—	—	—
4	Services, including freight.....	186	215	45	60	61	66	140	177	36	46	60	56	—	—	—	—	—	—
5	Other goods and services, total.....	18,084	17,614	3,931	4,735	3,588	4,732	4,279	4,922	1,872	1,667	1,280	1,534	538	707	143	158	145	158
6	Merchandise, adjusted, excluding military transactions.....	12,225	12,671	2,813	3,478	2,883	3,455	2,674	2,411	711	606	740	1,111	490	609	104	147	114	133
7	Transportation.....	1,232	1,220	250	310	305	315	108	817	132	134	128	132	40	44	19	19	10	12
8	Travel.....	657	590	107	148	170	116	41	33	6	17	17	10	9	10	1	3	3	3
9	Miscellaneous services:																		
10	Private.....	712	607	150	204	204	212	256	385	76	65	60	80	14	15	3	4	4	4
11	Government, excluding military transactions.....	172	180	40	34	21	21	74	73	26	17	14	15	1	(*)	(*)	(*)	(*)	(*)
12	Military transactions.....	184	107	42	42	49	84	14	16	2	4	4	4	(*)	(*)	(*)	(*)	(*)	(*)
13	Income on investments:																		
14	Private.....	1,079	1,706	417	442	433	603	188	218	44	57	47	60	123	127	23	32	37	45
15	Government.....	252	272	47	37	70	116	232	309	30	22	48	103	2	1	(*)	(*)	(*)	(*)
16	Imports of goods and services, total.....	16,424	15,813	3,717	4,158	4,080	3,896	4,237	4,240	1,065	1,259	1,257	1,278	1,106	287	233	244	269	283
17	Merchandise, adjusted, excluding military expenditures.....	10,254	10,208	2,514	2,752	2,455	2,474	2,580	2,033	447	320	484	672	607	603	210	241	181	231
18	Transportation.....	1,058	1,013	224	274	256	260	223	450	104	149	136	108	24	24	6	6	6	7
19	Travel.....	609	572	149	253	263	169	203	345	33	117	144	54	54	17	15	15	12	12
20	Miscellaneous services:																		
21	Private.....	303	327	80	84	85	80	217	242	60	61	62	50	1	(*)	(*)	(*)	(*)	(*)
22	Government, excluding military expenditures.....	297	280	52	57	61	63	85	94	28	25	28	24	6	8	3	2	2	2
23	Military expenditures.....	2,490	2,432	502	652	626	683	1,157	1,433	324	376	346	260	128	121	23	25	26	30
24	Income on investments:																		
25	Private.....	365	337	83	84	83	97	237	257	64	60	62	60	2	4	1	1	1	1
26	Government.....	50	00	23	14	14	15	35	30	11	3	3	0	4	(*)	(*)	(*)	(*)	(*)
27	Balance on goods and services.....	4,941	4,938	1,050	1,493	973	1,532	3,511	3,010	472	820	455	711	-438	-403	-144	-95	-24	-1
28	Unilateral transfers, net (to foreign countries (-)), total.....	-6,767	-5,274	-1,354	-1,479	-1,227	-1,212	-4,545	-3,690	-688	-854	-812	-806	-22	-21	-6	-8	-5	-4
29	Private remittances.....	-473	-426	-100	-111	-107	-115	-233	-233	-50	-50	-58	-62	-21	-20	-5	-6	-5	-4
30	Government.....	-4,294	-3,848	-1,254	-1,368	-1,120	-1,097	-4,312	-3,457	-638	-804	-754	-744	-1	(*)	(*)	(*)	(*)	(*)
31	Military supplies and services.....	-4,281	-3,137	-836	-956	-785	-697	-3,469	-2,318	-668	-681	-532	-455	—	—	—	—	—	—
32	Other grants.....	-710	-1,671	-302	-341	-352	-450	-1,126	-1,060	-208	-210	-244	-238	(*)	(*)	(*)	(*)	(*)	(*)
33	Pensions and other transfers.....	-1,423	-1,127	-33	-31	-30	-34	-37	-30	-7	-8	-9	-1	-1	-1	-1	-1	-1	-1
34	United States capital, net (outflow of funds (-)), total.....	-597	-1,437	-246	-408	-335	-598	384	51	142	8	16	-116	-65	5	21	-5	-6	-5
35	Private, net, total.....	-377	-1,545	-289	-390	-330	-598	123	-858	14	1	-38	-148	-67	11	19	-2	-4	-4
36	Direct investments.....	-722	-670	-120	-270	-129	-142	-48	-49	-10	2	-12	-70	2	13	—	-8	-4	-4
37	Portfolio.....	178	-262	-220	34	60	-105	207	66	31	46	33	-14	2	10	1	1	7	7
38	Short-term.....	107	-612	41	-188	-268	-280	-28	-221	-1	-34	-70	-116	-5	4	-3	3	-4	-4
39	Government, net, total.....	-220	106	122	-38	4	161	218	139	8	51	22	-4	-6	3	-3	-2	-4	-4
40	Long-term capital outflow.....	-710	-300	-54	-61	-65	-129	-172	-106	-19	-19	-7	-62	-12	-12	-1	-2	-4	-4
41	Payments.....	483	611	161	110	123	127	394	842	121	65	70	86	0	7	4	(*)	2	2
42	Short-term (net).....	11	-97	26	-97	-54	-11	-11	-16	30	-30	-13	8	-1	1	(*)	(*)	(*)	(*)
43	Foreign capital, net (outflow of funds (-)), total.....	1,106	1,432	443	369	337	319	1,557	1,696	225	387	199	145	-36	-66	-30	-31	-23	-3
44	Direct and long-term portfolio investments other than U. S. Government securities.....	207	225	10	60	64	63	180	208	24	61	70	63	6	1	1	2	2	2
45	Transactions in U. S. Government securities.....	-83	7	10	50	62	-127	-22	-30	13	24	4	-61	-3	-2	—	-1	-2	-2
46	Short-term liabilities to foreign banks and official institutions.....	1,027	1,233	304	145	272	474	979	942	232	304	108	238	-34	-63	-10	-30	-21	-2
47	Other short-term liabilities.....	-40	-56	53	-31	19	-61	-34	-44	-4	-2	17	-58	-2	-7	-2	-2	-3	-3
48	Gold sales (purchases (-)).....	1,163	288	58	8	164	70	1,426	376	63	72	171	79	13	(*)	(*)	(*)	(*)	(*)
49	Foreign capital and gold, total.....	2,269	1,730	499	247	504	389	2,982	1,472	438	459	370	258	-23	-64	-10	-21	-22	-1
50	Transfer of funds between foreign areas (receipts by foreign areas (-)) and errors and omissions.....	104	37	13	147	68	-191	-423	-253	-164	-140	55	-44	569	674	130	120	104	16

* Preliminary. * Revised. * Less than \$500,000.

1. Includes loans and returns of military equipment.

Note.—Data for previous years may be found in the Balance of Payments 1910-53 suppl.

ment to the Survey of Current Business. Net foreign investments equal the balance on goods, services, and unilateral transfers for all areas: 1953 year: -1000; 1954 year: -330; 1954 I, -300; 1954 II, +14; 1954 III, -354; 1954 IV, +330.

net payments by the United States of about \$440 million in 1953 and of \$315 million in 1954. The balance with the continental European countries changed from net payments of about \$1.2 billion in 1953 to net payments of about \$900 million in 1954. The latter change can be attributed to the \$480 million rise in United States exports of goods and services (excluding transfers of military end-items) and changes in the movements of private United States capital. The decline in merchandise imports was offset by a rise in military, travel, and other services expenditures.

The export rise to Western Europe, including the United Kingdom, most of which took place during the second half of the year, must in part be attributed to the relaxation of European exchange restrictions made possible by the rise in gold and dollar reserves. Most of the increase consisted, however, of raw materials and foodstuffs other than grains, a reflection of the rising industrial production and incomes.

Exports of finished manufactures were less affected. In

1954 they comprised perhaps less than one-third of our exports to that area. This corresponds approximately to the prewar pattern of trade which was temporarily changed during the immediate postwar reconstruction period.

The decline in merchandise imports from Europe was to a large extent due to smaller imports of semimanufactured steel products and other raw materials. This reduction is attributable to the rise in European demand as well as the decline in our own. In fact, for many of these commodities, including steel, exports to Europe rose, while imports from Europe declined.

The \$270 million increase in military expenditures was almost entirely due to increased payments for offshore procurement of military equipment for retransfer under military grant-aid programs.

Omitting transfers of military end-items, grants and loans dropped by nearly \$200 million, although cash assistance to

by Area 1953 Annual and 1954 Annual and by Quarters

(Millions of dollars)

Eastern Europe						Canada					Latin American Republics					All other countries					International institutions					Lines				
1953	1954					1953	1954					1953	1954					1953	1954											
	Year	I	II	III	IV		Year	I	II	III	IV		Year	I	II	III	IV		Year	I	II	III	IV	Year	I		II	III	IV	
26	28	7	2	13	64,048	3,949	888	1,433	923	955	4,352	4,678	1,028	1,370	1,867	1,254	4,299	4,315	963	1,373	863	996	45	75	21	20	21	13	1	
					-3	(*)	(*)		(*)	36	47	11	33	9	14	778	772	155	902	177	138								2	
					-3	(*)	(*)		(*)	34	44	10	12	9	13	745	737	149	291	180	131									3
						(*)	(*)		(*)	2	3	1	1	(*)	1	34	38	0	11	11	7									4
35	28	7	2	13	64,951	3,899	888	1,433	923	955	4,356	4,681	1,027	1,369	1,858	1,249	4,299	4,315	963	1,373	863	996	45	75	21	20	21	13	5	
10	14	5	1	2	64,119	3,837	888	1,433	923	955	4,357	4,682	1,027	1,370	1,859	1,250	4,300	4,316	964	1,374	864	997	46	76	21	20	21	13	6	
(*)	(*)	(*)	(*)	(*)	387	317	80	81	108	73	138	124	33	28	29	24	32	32	32	32	32	32	32	32	32	32	32	32	32	7
4	4	1	1	1	53	102	22	26	27	37	158	160	42	38	36	40	100	117	28	29	30	30	45	44	11	11	11	11	9	
(*)	(*)	(*)	(*)	(*)	113	107	20	25	33	20	12	10	2	3	3	5	70	38	9	10	9	10	10	10	10	10	10	10	10	10
5	10	1	(*)	9	323	380	92	82	70	102	635	640	144	144	163	178	401	430	108	116	101	130	14	10	5	2	6	2	12	
					(*)	(*)	(*)	(*)	(*)	24	32	8	10	6	10	10	20	4	4	4	4	4	4	4	4	4	4	4	4	13
40	44	9	11	13	12,140	3,840	641	757	853	778	4,230	4,659	1,028	1,028	854	927	3,006	2,679	611	718	688	534	45	42	5	3	25	10	14	
37	40	8	10	11	12,410	3,843	641	757	853	778	4,230	4,659	1,028	1,028	854	927	3,006	2,679	611	718	688	534	46	42	5	3	25	10	15	
(*)	(*)	(*)	(*)	(*)	93	90	20	22	23	25	261	247	47	41	61	68	157	153	38	38	39	43	43	43	43	43	43	43	43	16
					232	290	25	60	106	45	230	230	47	00	01	61	37	30	7	0	7	7	7	7	7	7	7	7	7	17
2	4	1	1	1	21	20	7	8	7	7	45	48	11	12	12	12	18	2	2	2	2	2	2	2	2	2	2	2	2	18
1	(*)	(*)	(*)	(*)	102	154	41	62	40	45	27	23	0	5	6	001	774	100	202	105	181	11	26	37	1	(*)	23	3	19	
					112	83	10	28	10	28	11	11	2	2	3	4	3	2	(*)	1	(*)	1	15	10	4	2	2	2	2	20
					13	12	4	2	3	3	6	5	2	1	1	1	7	3	2	1	(*)	(*)	15	10	4	2	2	2	2	22
-15	-16	-2	-3	1	908	749	247	276	69	187	162	689	-51	120	223	217	1,293	1,839	272	557	265	481	20	33	16	18	-4	8	23	
-27	-28	-7	-6	-6	-10	-4	-1	-2	-1	-128	-142	-25	-40	-31	-36	-1,580	-1,442	-268	-405	-330	-338	-33	-30	-18	-7	-24	-13	24		
-19	-17	-4	-5	-4	-14	-4	1	(*)	2	-54	-60	-12	-14	-11	-13	-182	-125	-30	-31	-31	-33	-33	-33	-33	-33	-33	-33	-33	-33	25
-5	-3	-3	-1	(*)	3	(*)	(*)	(*)	(*)	-36	-47	-11	-13	-6	-14	-770	-772	-165	-302	-177	-138	-13	-12	-10	-7	-34	-18	26		
(*)	(*)	(*)	(*)	(*)	-10	-8	-2	-2	-2	-5	-5	-7	-2	-2	-2	-1	-88	-80	-21	-10	-103	-140	-12	-10	-7	-34	-18	27		
5	3	1	(*)	2	-413	-444	-248	-121	-23	-22	-183	-282	38	-174	-342	-213	-145	-855	-65	-263	-50	-125	-37	-364	-34	-5	-42	-7	28	
					-408	-447	-257	-129	-20	-41	-22	-472	49	-177	-345	-199	-124	-304	-32	-78	-52	-112	-28	-345	-34	-5	-43	-7	30	
					-413	-412	-145	-96	-78	-93	-82	0	-85	2	-11	-89	-136	-34	-30	-29	-34	-34	-34	-34	-34	-34	-34	-34	-34	31
(*)	(*)	(*)	(*)	(*)	13	-32	-5	-9	-10	-8	222	-306	38	-67	-106	-64	-39	-61	-6	-13	-38	2	-1	(*)	-1	-1	-1	-1	-1	32
5	3	1	(*)	2	-4	3	9	-3	-3	-1	-345	-31	-13	-2	-7	-14	-25	-21	-5	-24	-33	-13	2	1					34	
6	3	1	(*)	2	-10	-9	-1	-2	-3	-1	-406	-11	-21	-20	-20	-47	-121	-67	-13	-18	-35	-11							35	
(*)	(*)	(*)	(*)	(*)	2	11	10	1	(*)	(*)	61	89	9	21	10	33	75	94	6	23	30	7	2	1					36	
-2	2	2	1	-1	(*)	(*)	(*)	(*)	(*)	-1	-1	-1	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	37
-2	2	2	1	-1	-117	55	29	-53	48	24	124	238	114	117	-11	50	4	-91	-72	-148	60	53	70	282	95	-39	204	-18	38	
					47	-30	-14	-11	1	-6	14	32	-3	19	5	10	2	3	3	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	39
-2	2	2	1	-1	-82	-133	3	-27	-4	-184	7	80	2	10	27	17	(*)	-2	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	40
(*)	(*)	(*)	(*)	(*)	-140	223	20	-4	31	193	71	84	70	87	-70	18	63	-71	-72	-130	62	68	54	131	63	-62	103	-32	41	
					58	-11	20	-14	20	-34	22	30	30	5	-10	2	-91	-21	-20	-2	1	-1	1	1	1	1	1	1	1	42
-2	2	2	1	-1	-2	-16	-1	-3	-4	-2	124	-68	-30	-34	-3	-4	6	12	9	(*)	2	1	-5	-21	-5	-7	-4	5		
39	39	6	14	3	-119	46	28	-61	44	24	248	101	104	53	-52	46	12	-79	-63	-146	62	70	70	191	80	-40	200	-13	44	
					-387	-300	-20	-21	-20	-178	-107	-126	-44	21	2	-114	424	271	68	166	53	-8	60		24	40	-116	30	45	

Source: U. S. Department of Commerce, Office of Business Economics.

France and the United Kingdom to meet military expenditures rose to about \$360 million.

Net dollar flow to Europe concentrated

The rise in direct military expenditures and the growing emphasis in grants to assist in meeting defense expenditures concentrated United States Government expenditures in Europe in relatively few countries. Although these countries were thus able to purchase here more than they sold, United States Government expenditures there were far greater than their trade deficit. Government payments to Germany exceeded the German merchandise trade deficit with the United States by about \$80 million; for France the corresponding figure was about \$600 million and for the United Kingdom about \$130 million. Private services transactions and remittances further increased net payments by the United States.

The net dollar flow to Europe thus entered the area mostly by way of France and was distributed among the other European countries through settlements of the French deficits through the facilities of the European Payments Union. After the middle of 1954 French transactions with EPU countries were nearly in balance, so that with the exception of special settlements of previously accumulated debts the indirect dollar flow to other European countries was substantially reduced.

Dollar flow interrupted

The limitations on greater purchases of American manufactures by Europe and the size and direction of United States Government expenditures in that area contributed to the continued excess of United States payments to Europe over European expenditures in the United States. In 1954 this excess amounted to about \$1.2 billion, all of which was added to European reserves. Total European dollar assets, including long-term investments in the United States increased by about \$250 million more, and nearly \$200 million were used by European countries to reduce their obligations to the International Bank and the International Monetary Fund. For the year as a whole, net dollar payments by Europe to third areas, particularly Canada and the independent sterling area, were thus more than offset by net receipts from third areas, mainly the dependencies and various Far Eastern countries.

The rise in European gold and dollar assets has greatly contributed to the financial strength of most of the European countries and facilitated the simultaneous rise in production and relaxation of controls on international transactions in that area during the year.

Rising European imports reduced the rate of net receipts from areas other than the United States during the second half of the year below those during the first half of 1954 or the second half of 1953, but did not result in a net dollar flow from Europe to other areas.

A net dollar flow from Europe to other areas, and from there back to the United States as payment for United States exports (mostly of manufactured goods, and services) would require a considerable change in the traditional pattern of world trade and investments. Even before the war net dollar receipts by Europe from the dependencies, the Far East and some of the Latin American countries were more or less offset by net payments to Canada and other parts of Latin America, while United States transactions with Europe were approximately in balance.

In appraising the desirability of such basic changes in the world payments pattern, it must be considered that some of the payments to Europe are temporary, particularly off-shore

procurement under military grant aid programs and direct assistance to meet military expenditures which together amounted to more than \$900 million in 1954. The additions of these dollar payments to European reserves, therefore, appear to have aided world trade by avoiding temporary disturbances.

Latin America

Transactions with Latin America with respect to goods, services, unilateral transfers, and direct investments resulted in net receipts by the United States of nearly \$400 million in 1954 as compared with net payments by the United States of \$50 million in 1953. About two-thirds of the change was due to higher purchases by Latin American countries in the United States and one-third to reduced purchases by the United States. The deficit was met mainly by long and short term United States loans which increased from \$90 million in 1953 to \$420 million in 1954.

Largely as a result of continued net dollar receipts from other sources, including the International Monetary Fund and the International Bank, gold and dollar holdings of Latin American countries rose further in 1954, but at a considerably slower rate than during the previous year.

United States exports to Latin America rose sharply in the first half of the year in response to higher incomes resulting from higher coffee prices and did not drop during the second half of the year, although incomes from coffee sales was greatly reduced. Consequently, the reserves of these countries were under pressure during the latter part of the year.

Canada

Transactions with Canada in 1954 resulted in a reduced export balance on goods and services as compared with the previous year. As other transactions with the United States and net dollar receipts from third countries were relatively stable, Canadian holdings of United States dollars increased, particularly toward the end of the year. Increased holdings of United States dollars held down the appreciation of the Canadian currency which was causing difficulties for Canadian industry both in the domestic and export markets. In order to slow down the inflow of United States capital to Canada, and lower the exchange rate, thus stimulating domestic production, the Canadian discount rate was reduced to 1½ percent in February of this year, the same rate as in the United States. The reduction of the Canadian interest rate will reduce Canadian borrowing in the United States but is less likely to impede the outflow of direct investment capital.

Asia

The United States export surplus on goods and services with the independent countries of Asia and Africa increased from 1953 to 1954 by about \$340 million, because of reductions in both raw material imports and military expenditures in the Far East. Internarea transfers indicate, however, that the loss in income by these countries from merchandise trade with the United States was in part compensated by smaller net payments, probably resulting from increased exports, to other areas. Liquidations of reserves by Japan during the first half of the year were changed to accumulations during the second half mainly as a result of monetary policies which reduced imports and greatly stimulated exports.

United States transactions with the independent sterling area countries resulted in a \$90 million rise from 1953 to

1954 in net receipts by the United States which had to be met by an equivalent change from net accumulations to net reductions of the area's dollar holdings. To meet the deficit with the United States, the area as a whole had to depend upon dollar receipts from other countries, mostly the sterling area dollar pool. These transfers, however, remained about as high in 1954 as during the preceding year.

Rise in export balance limited

The various trends affecting our international business suggest that the upswing in exports during the second half

of 1954 is not likely to be sustained. Adjustments in Latin America and controls on excessive business expansion in the United Kingdom would tend to reduce markets for American goods. At the same time expanding demands in this country may also for some commodities tighten the supply situation, and, in fact, restrictions have already been placed upon the export of copper and scrap.

On the other hand, a relaxation of supply stringencies abroad for some of the raw materials imported by us and lower domestic stocks are likely to stimulate United States imports. These changes would result in a decline in the export surplus which may permit net foreign dollar assets to rise faster than during the fourth quarter of 1954.

Table 2.—Balance of Payments of the United States with the Sterling Area 1953 Annual and 1954 Annual and by Quarters

(Millions of dollars)

Line	Item	Total					Europe					Dependencies					Other countries								
		1954					1954					1954					1954								
		1953	Year*	I	II	III	IV	1953	Year*	I	II	III	IV	1953	Year*	I	II	III	IV	1953	Year*	I	II	III	IV
1	Exports of goods and services, total	2,585	2,775	545	694	640	879	1,212	1,378	294	365	313	502	370	330	79	162	96	116	288	1,006	219	257	251	248
2	Military transfers under grants, total	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239
3	Supplies	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239	239
4	Services, including freight	2,346	2,536	306	455	401	640	973	1,139	55	126	74	263	131	91	55	123	73	77	149	767	280	218	212	209
5	Other goods and services, total	2,107	2,297	306	455	401	640	973	1,139	55	126	74	263	131	91	55	123	73	77	149	767	280	218	212	209
6	Merchandise, adjusted, excluding military transactions	1,807	1,740	361	433	418	537	671	703	148	155	185	270	222	225	49	53	52	54	714	754	154	216	189	203
7	Transportation	228	227	51	60	58	58	129	142	31	36	37	30	19	21	5	5	5	8	78	94	16	17	10	16
8	Travel	54	59	9	12	12	7	14	15	2	0	0	3	7	7	1	2	2	2	13	14	4	4	4	2
9	Miscellaneous services:																								
10	Private	222	201	47	77	78	81	173	232	45	61	61	60	11	11	2	3	3	3	38	46	11	18	12	12
11	Government, excluding military transactions	27	22	6	0	5	5	12	0	2	2	2	2	1	0	0	0	0	0	14	13	2	4	2	3
12	Military transactions	27	16	6	4	3	3	1	0	0	0	0	0	0	0	0	0	0	0	20	10	0	4	3	2
13	Income on investments:																								
14	Private	302	334	65	98	85	91	114	121	27	37	22	35	110	125	22	29	34	40	78	88	10	27	20	16
15	Government	104	104	1	0	2	0	97	90	0	0	0	0	0	1	0	0	0	1	7	0	1	2	2	3
16	Imports of goods and services, total	2,675	2,434	682	735	688	823	1,346	1,434	314	397	377	544	653	553	143	169	131	157	671	607	143	172	166	132
17	Merchandise, adjusted, excluding military expenditures	1,701	1,423	368	427	367	371	667	610	110	137	126	137	544	477	113	139	101	125	590	581	120	152	140	109
18	Transportation	218	202	20	33	30	45	133	172	32	36	48	35	15	13	3	3	4	20	18	2	4	4	6	
19	Travel	121	130	25	30	27	22	63	60	7	20	20	8	48	53	15	15	14	11	10	12	3	3	3	
20	Miscellaneous services:																								
21	Private	183	190	47	48	49	40	178	160	47	48	40	40	1	0	0	0	0	4	0	0	0	0	0	
22	Government, excluding military expenditures	20	22	0	0	0	0	11	7	2	2	1	2	4	0	0	0	0	1	14	12	0	3	3	
23	Military expenditures	278	404	87	113	103	101	213	828	73	80	83	79	49	42	10	30	11	11	22	34	4	10	9	12
24	Income on investments:																								
25	Private	134	162	37	40	39	30	131	143	36	36	35	35	2	4	1	1	1	1	1	0	0	0	0	0
26	Government	11	8	2	2	2	3	10	0	3	2	2	2	0	0	0	0	0	0	1	0	0	0	0	0
27	Balance on goods and services	-125	-141	-57	-41	-48	-247	-334	-58	-60	-64	-128	-238	-240	-64	-64	-50	-37	-297	-297	-67	-115	-91	-126	
28	Unilateral transfers, net [to foreign countries (-)], total	-513	-293	-73	-60	-70	-20	-233	-216	-50	-40	-48	-18	-17	-5	-4	-4	-4	-157	-64	-12	-16	-16	-20	
29	Private remittances	-87	-61	-16	-22	-20	-20	-40	-62	-11	-15	-13	-13	-17	-10	-4	-4	-4	-20	-13	-4	-3	-3	-8	
30	Government	236	232	57	40	39	30	131	154	36	36	35	35	2	4	1	1	1	1	0	0	0	0	0	
31	Military supplies and services	236	232	57	40	39	30	131	154	36	36	35	35	2	4	1	1	1	1	0	0	0	0	0	
32	Other grants	-217	-204	-42	-60	-48	-68	-283	-151	-44	-25	-33	-61	0	0	0	0	0	-134	-53	-8	-13	-13	-17	
33	Pensions and other transfers	-9	-8	-2	-2	-2	-2	-9	-7	-1	-2	-2	-1	-1	-1	-1	-1	-1	-2	-1	-1	-1	-1	-1	
34	United States capital, net [outflow of funds (-)], total	-33	-153	34	-81	-68	-66	33	-37	44	-24	-35	-22	-29	-16	2	-1	-7	-10	17	-36	-14	-16	-26	-34
35	Private, net, total	-36	-192	34	-48	-64	-121	-8	-135	38	-18	-45	-68	-71	-7	2	1	-4	-6	47	-59	-5	-18	-16	-37
36	Direct investments	-53	-72	-6	-30	-20	11	-15	-7	3	7	-32	-72	-13	0	1	-8	-8	8	-44	-13	-10	-21	10	
37	Portfolio	79	29	21	-2	20	-10	37	4	13	-6	11	-11	3	10	1	1	1	1	20	-12	7	5	14	
38	Short-term	-50	-153	10	-40	-68	-72	-54	-122	18	-82	-63	-36	-2	-4	1	-1	-1	-2	-27	-27	-7	-2	-22	
39	Government, net, total	-3	44	-2	-3	-4	55	39	26	6	4	19	66	-9	-9	0	0	0	-34	-33	-6	-5	-11	-7	
40	Long-term capital outflow	-55	-59	-10	-10	-18	-14	-14	-7	0	0	0	0	-10	-12	-1	-2	-4	-45	-37	-9	-7	-12	-9	
41	Repayments	60	63	2	1	3	57	54	32	0	0	0	0	3	3	1	0	0	2	4	1	1	1	1	
42	Short-term (net)	-3	30	0	12	8	12	-18	37	0	11	0	11	-1	0	0	0	0	0	0	0	0	0	0	
43	Foreign capital, net [outflow of funds (-)], total	39	-5	107	203	-169	-163	-11	24	126	204	-121	-187	-3	-2	-2	3	-1	53	-30	-17	-3	-34	28	
44	Direct and long-term portfolio investments other than U. S. Government securities	75	139	22	37	30	40	70	131	21	25	37	38	-1	0	1	1	2	2	0	1	0	0	0	
45	Transactions in U. S. Government securities	35	-14	18	-11	-5	-10	35	-14	18	-11	-5	-10	0	0	0	0	0	0	0	0	0	0	0	
46	Short-term liabilities to foreign banks and official institutions	-58	-74	65	105	-163	-121	-122	-61	78	195	-163	-151	3	-4	-8	0	-1	0	-29	-30	0	-23	22	
47	Other short-term liabilities	-13	-58	12	-18	8	-01	-12	-62	9	-13	18	-58	-5	-4	-1	-1	-1	-2	-8	-2	3	-4	-1	
48	Gold sales [purchases (-)]	482	50	0	0	0	0	482	48	59	0	0	0	0	0	0	0	0	0	-1	0	0	0	0	
49	Foreign capital and gold, total	521	42	107	253	-169	-168	269	74	126	266	-131	-187	-2	-2	0	1	-1	53	-30	-17	-3	-34	20	
50	Transfer of funds between foreign areas [receipts by foreign areas (-)] and errors and omissions	180	203	-6	-101	200	77	-30	241	-34	-80	268	117	285	255	60	60	40	52	-200	-213	-24	-80	-17	-80

* Revised. * Preliminary. * Not shown separately. * Less than \$500,000. Source: U. S. Department of Commerce, Office of Business Economics.